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## THE WORLD'S PROSPERITY IN THE YEAR 1903<sup>1</sup>

In 1891 a decided increase took place in the world's gold production. Perhaps Professor Kinley would say that the marginal social utility of gold as a means of exchange had increased. From 1891 to 1896 it went up from six million ounces to ten millions, due to the richness of Transvaal mines. In 1897 another increase to eleven and one-half millions took place, due partly to the Alaskan gold discoveries. In spite of the closing of the South African mines in 1900 and 1901, production fell less than might have been expected, not going so low as 1897, and in 1903 it reached nearly sixteen million ounces, notwithstanding the lack of labor in the Rand and Australia, and the labor disputes in Colorado. Australia leads in gold production, the United States comes next, with Africa a close third. The bulk of the Australian product comes from western Australia—about one-half. The bulk of the American product comes from Colorado—about one-third. The falling off in the output of Colorado, California, Alaska, and Montana is partly made up by the increase in Arizona, Utah, Nevada, Idaho, and Washington.

The oriental countries that preserve the silver standard made a large demand on that metal for coinage, and although the price had gone down to 21 11-16*d.* on January 22, 1903, it was raised to a maximum of 28½*d.* in August by the expectation of demand for the Philippines, by the demands of France for Indo-China, and by purchases of the Indian government. Then, however, demonetized Mexican dollars from the Philippines, and surplus silver from the Straits Settlements, and war-indemnity money from China came on the market. Moreover, silver soon appeared to be superabundant in India, and the American government stopped its purchases for the Philippines, bringing silver down rapidly to 25*d.*

In Russia the exchange of St. Petersburg showed a continuation of the recovery of the previous year, and the industrials rose generally, especially the petroleum stocks. Nobel (petroleum) shares rose from 8,700 rubles in 1901 to 9,825 in 1902, and 11,000 in 1903, on December 31 of those years. But the breaking off of negotiations and the warlike actions of Japan in February, 1904, inflicted a severe

<sup>1</sup> *Le marché financier.* By Arthur Raffalovich. (*Année économique et financière*, 1903-1904.) Paris: Librairie Guillaumin et Cie., 1904. 8vo, pp. viii + 1101.

shock on the St. Petersburg exchange, which appeared to be less hopeful than the exchanges of Berlin and Paris. Indeed, the domestic 4 per cent. government bonds fell first. Nobel fell from 10,100 on February 6 to 9,000 on February 11. Mr. Witte declined to use the resources of the Russian treasury to prop up the stock market. He issued a manifesto in which he drew attention to the fact that a fall of securities is a usual accompaniment of a declaration of war, and acknowledged that the national bank of Russia, which had been accustomed to purchase Russian 4 per cent.'s at 99½ was now able to purchase them (February 10, 1904) at 93 per cent., and contended that the real cause of the fall was that the holders had lost their heads and had become the game of the speculators for a fall. Russian bonds went off in Paris a good deal, February 8, but subsequently remained hard. Nine years ago there was a severe crisis on the St. Petersburg exchange, resulting from speculation in railroad stocks. In 1898 an industrial crisis occurred, caused by a drainage of gold to the United States and several years of bad crops. This caused many failures and a marked fall in quotations. At this time the Bank of Russia formed a syndicate to sustain the market, and the minister of finance made the rules of the exchange more severe. No foreign securities are dealt in on that exchange.

In France the crisis that began in 1900 seems to have ended in 1903. There is a perceptible picking up in business, marked by a rise in the industrials. The rate of interest on fifteen-day loans for carrying stocks was on the average 3.229 per cent., instead of 3.010 per cent. in 1902, and 2.089 per cent. in 1901. There seems to be still some lack of business activity. Securities of street-railway, water, and gas companies showed some tendency to fall. Railway and government bonds also fell, while foreign government bonds that are on a 4 or 5 per cent. basis gained several points. In general, securities whose returns are not fixed, gained. The year started out with a general upward movement, but in April the exchange seemed to take a fright. The withdrawal of deposits from savings banks, the proposals for new taxes, the increase in public expenses, the purchase of railroads by the state, the canal projects to compete with the railroads, and the proposed regulations in favor of labor were the causes of a weakening at a moment when capital was abundant and call loans were low. Confidence returned in May, and the quotations went up pretty rapidly in view of the government surplus and an increase in railroad earnings. The improvement was not held, however. Gov-

ernment bonds fell in June and July on account of the proposed income tax. Call loans went up to 3 per cent. It was not till the end of the year that some activity reappeared on the exchange.

In Germany prosperity lasted from 1895 until the commencement of 1900, and was followed by a crisis of credit in the banking and the stock exchanges, and in the industries of the metals, construction, electricity, cement, etc. Consumption fell at the very moment that the means of production had reached a maximum. There are some manifestations of a real return of activity. It is too early to speak of complete recovery. The home market has been set free partly by the sacrifices of the home consumer. The slow recovery of 3 per cent. government bonds evidences the lack of surplus capital seeking fixed and moderate returns. There is no marked revival in the spirit of enterprise. The gross receipts of the German railways was 1,748 million marks in 1903, against 1,642 millions in 1902. The production of pig iron was 10,085,634 tons, against 8,402,600 tons—an increase of 20 per cent. Prussian savings-bank deposits reached a maximum, being 500 millions more than the year before. The clearings of the Reichsbank were 31,134 millions, against 29,966 in 1902. The stamp tax on commercial paper gave 12,370,000 marks, against 11,947,000 in 1902.

The improvement, such as it was, began in the coal trade. The strikes in France and the United States in 1902 had a stimulating influence on German industry. Combined with this was a picking up in the building trade at the end of 1902, especially in the construction of factories and workmen's dwellings. It did not, however, extend to the textiles, on account of the high price of cotton. A great strike at Crimmitschau in Saxony affected 7,500 operatives; it resulted in their submission. In this case the factory-owners received contributions from their colleagues at a distance, which helped them to counterbalance the contributions received by the operatives.

The capital called for in Germany in 1903 was 1,473 million marks, compared with 2,129 in 1902, 1,638 in 1901, and 1,596 in 1900. Its value by the quotations was somewhat above par on the average, while the year before it had been somewhat below. The new listings on the Berlin stock exchange represented a capital of 300 million marks in 1903, compared with 118 in 1902, 158 in 1901, 340 in 1900, 541 in 1899, from which year they go down steadily as we recede in time until 1894, when they jump down to 88. These figures would look as though a tremendous increase in the business of incorporation

had taken place, were it not for the figures just cited of capital called for, and for the fact that the number of companies represented is only 84 for 1903, compared with 87 for 1902. The discrepancy is explained by the transformation of the Krupp works into a stock company with a capital of 160 million marks. No new sugar factories have been created for three years, no new agricultural enterprises for two years, and the number of new electrical companies has fallen off greatly.

In the second and third quarters, the hardening of the money market in New York stopped the rising quotations in Berlin, where a bad impression had been produced by the decided fall in American rails and in Kaffir stocks, in both of which the German public has investments. The last quarter was more favorable. The home situation was better. The crisis of 1900-2 seemed to be over. The agitation for renewal of existing combinations, especially for the great steel trust, awakened growing interest in metal and coal stocks. The amalgamation of companies fed speculation. The outlook for reform in government control and in taxes on operations which strangle the exchange, helped to stimulate speculation. These expectations were exaggerated. The bull movement was overdone — a situation which was disclosed by the breaking up which the Berlin exchange experienced in February, 1904. The clearings of Berlin were larger in 1903 than in 1901 or 1902, but were exceeded by the years 1898-1900. An examination of the statements of the ten principal banks of Germany shows that their profits were derived much less from such operations as underwriting than from regular operations of discount and loan. The key to the situation of bank development in Germany for 1903 was the creation of the community of interest between the Dresden Bank (capital, 130 million marks; reserves, 34 millions) and the Schaaffhausen Banking Co. (capital, 100 millions; reserves, 20 millions). This was consummated December 10, 1903.

The crisis was attended by the criminal prosecution of the former president of the Malt Drying Co., of Cassel, who was extradited from France. He was found guilty of forging, bankruptcy, and of fraud without extenuating circumstances. Gerhard Terlinden, a former locksmith, founded a factory without capital, which he succeeded in transforming in 1897 into a stock company. He made furniture and furnaces. He was the sole stockholder. He obtained the Bank of Düsseldorf, the National Bank, and the West German Bank to

underwrite the enterprise. He bought back from them the stock that he had given them. In 1900, 2 million bonds were issued and 1,700,000 more stock. Terlinden took all the stock. His accounts were completely falsified, and although the company always lost money, Terlinden succeeded in borrowing  $9\frac{1}{2}$  millions from the banks, especially the banks of Berlin. He put up as security forged stock and forged acceptances. He fled, but was discovered at Milwaukee, extradited, and convicted.

The Berlin Exchange was not at all prepared for the Russo-Japanese war. The Prussian government itself had contributed to the overconfidence by granting 70 million marks of 3 per cent. consols to the so-called Little Prussian Syndicate for distribution among the public. The sudden change in the situation on the outbreak of the war shows how unprepared the exchange was and how surprised it was. On February 8, when the news of the war came, the exchange was seized with a collapse, and quotations went off 10, 15, and 20 per cent. The professional speculators and stock-brokers were hardest struck, and a whole list of banking houses, especially in the provinces, found themselves on the bull side and furnished many victims. Without repeating the list, it is sufficient to mention that Max H. Meyer, speculator in Berlin, a member of the banking firm of Brandel & Co. in Berlin, and the banker Albert Jaffé in Frankfort, all committed suicide. The speculator Christof Teubert, member of the Berlin exchange, made the defense of gambling.

According to Mr. Raffalovich, the center of the financial situation in 1903 was undoubtedly the United States; and according to Mr. Alexander Dana Noyes, who contributes the chapter on the United States for this volume, the moral of the year 1903 is that the public has in its hands an efficient, if not a prompt, means of defense against stock-jobbing in the very simple expedient of staying away from the market. This natural functioning of the economic organism is recommended to the attention of our politicians who believe in legislation as a cure, and to our pessimistic economists who confine their attention to financial pathology. Of course, old and solid businesses felt the effects of the public abstention somewhat also when they attempted new emissions. This was shown by the effort of the Pennsylvania Railroad Co. to issue 75 million dollars of securities out of 200 millions which it had voted to raise. New stock was offered at 120, when the old stock was above 150; but neither the old stockholders nor other persons were interested in the project, and as a last

recourse the company applied to two large banking houses which, for a round commission, guaranteed all the stock which the old stockholders might not subscribe at 120.

But the Steel Corporation had a still more astonishing experience. The proposition was to issue 50 millions of bonds for specie and to convert into bonds 200 millions of preferred stock. The careful part of the public was entirely opposed to the proposition. A syndicate was formed, under the leadership of Mr. Morgan, to guarantee 20 millions of the new bonds and 80 millions of the converted stock, but the members of the syndicate took to selling the new bonds to be delivered when issued. The result was that the price went off on the curb to 85. Not a stockholder took a bond which was offered at par. The whole issue of bonds was a failure. Nothing remained except what had been guaranteed by the syndicate. The public retired from the market at the very moment when the trusts besieged the capitalistic community for new capital.

The next notable evidence of the ability of the public to defend itself was the way in which great speculators and syndicates which carried securities by the aid of borrowed money, and were no longer able to keep up their margin with the banks, were compelled to dump gilt-edged securities on the market. An interview with Mr. Morgan brought out the declaration from that gentleman that good securities must be distinguished from bad ones, that the former would prove their own worth, and that the railway obligations were perfectly sound. This specification of rails was taken by the public to imply an admission of the weakness of the steel issues. The bank reserves fell very low, and the banks were forced to rediscount 30 millions of their paper in Germany at a high rate of interest and to push the syndicates hard. Novel expedients were resorted to; the syndicates sold their stock at any price. The very best issues were the first to go. The public was dumfounded by this treatment of gilt-edged securities. The process was kept up for months, with special indications of embarrassment in this or that direction. When these holdings were disposed of, the undigested securities which were the cause of the trouble followed. The stock of the United States Steel Corporation tumbled down to a 20 per cent. basis. The liquidation of the syndicates was kept up throughout the summer.

By hook or by crook, in spite of persistent rumors to the contrary, the great magnates all escaped actual failure, but the panic was rightly termed "the rich men's panic." The greatest losers were the

richest men, followed by those less rich, and so on. The public was affected, but not in anything like the same degree. The papers were full of the advertisements of the sale of paintings, horses, carriages, statuary, furs, and bric-à-brac.

Notwithstanding the distress of the magnates, there were only five outright failures. Curiously enough, open distress was manifested at a distance from New York. Two trust companies of Baltimore suspended payment. One of them had placed too much confidence in the future of a Mexican railroad. The embarrassment proceeded from Baltimore to Pittsburg, where one national bank was forced to suspend in the middle of October. Moving westward to St. Louis, it caused some banks in the world's fair city to endure a run, which they successfully met.

Neither the view that the shock was confined to the stock exchange without affecting general prosperity, nor the other extreme of supposing that the business organization of the country has suffered an irreparable breakdown, is justified. The United States can pay its debts to Europe and return London's gold. Europe has bought back some of the railroad stocks that it had sold. But still there is left the labor question, which is the most difficult problem on the industrial horizon. The prosperity of the West has remained unbroken. Immense purchases of land have been made in the far West and in Canada. These, indeed, have diminished the circulating capital in New York and Chicago. The regular shifting of investment to funds giving fixed returns is now taking place; while in London, on the other hand, the market is still charged with undigested securities.

The year began with the end of the Armour wheat speculation in Chicago and the announcement of the issue of new stock in Pennsylvania, followed in February by a great increase in bank loans, a boom in copper in Boston, and a commencement of cotton speculation. In March came the borrowing of capital from Germany; in April, the decision of the Northern Securities case, and the distribution of the profits of the first steel syndicate. In May came the fall of iron and the beginning of "the rich men's panic;" in June, liquidation on the exchange and imposition on the trust companies of the requirement of a 5 per cent. reserve. In June the quotations fell below the level of May 9, 1901, the Shipbuilding Co. case began, and the export of 9 million dollars gold occurred; July, beginning of the downfall of the overcapitalized industrial concerns, and reorganization of New Eng-



land Cotton Yarn and Cotton Duck; August, resignation of Charles Schwab, president of the United States Steel Corporation; September, gold withdrawals prepared for; October, reduction of the dividend of the Steel Trust; November, importation of gold from London, fall of steel, big cotton exports, rise in cotton, and cancellation of the contract of the second steel syndicate; December, cotton speculation.

The number of shares dealt in on the New York Stock Exchange in 1901 was 266 millions; in 1902, 188; in 1903, 161. Their value was respectively  $20\frac{1}{2}$  billion dollars, 14, and 11. The new listings for the same years respectively were 923 millions, 533, and 581. Of the listings of 1901, 667 were for railways and 65 for street cars. This does not include the 400 millions of the Northern Securities Co., nor the United States Steel Corporation. The latter came in the unlisted department, and the former, with Standard Oil, on the curb. In 1902, 390 millions were railway and 54 street cars. In 1903, 270 millions were railways. Thus we see that, notwithstanding the comparatively complete condition of the American railway system, the new enterprises of combination have given to railway stocks and bonds a leading place in the market for new securities.

From 118 billions in 1901 and 1902 each, the clearings in the United States fell to 108 billions in 1903, but are still above any previous year. While the New York clearings fell, however, the clearings of the rest of the country rose from 1902 to 1903. The same phenomena were observed between 1901 and 1902; but in 1903 the fall was communicated to New England, then to Philadelphia, and toward the end of the year to the whole of Pennsylvania, Indiana, Ohio, and Michigan. Call loans reached 10 per cent. on January 2, fell to  $2\frac{1}{2}$  per cent. on February 9, and rose to  $6\frac{1}{2}$  per cent. on March 9. To relieve the money market, the secretary of the treasury adopted the new policy of depositing with the banks 40 million dollars of internal revenue. The great railroad companies were compelled to raise their money by short-term notes, which were issued in the period between July 1, 1903, and April, 1904, to the amount of 130 million dollars. They fall due from February, 1905, to May, 1906.

In England there were 9,205 failures in 1903, against 8,821 in 1902. The London clearing-house recorded 1 per cent less clearings in the former year than in the latter. A falling-off of clearings for the stock exchange of 109 million pounds is due to diminution in business. The capital called for was only 108 million pounds in 1903, against 154 million pounds in 1902.

Crammed full of securities created for the South African campaign, tormented by threats of war sometimes from western Europe and sometimes from the Orient, deeply disappointed by the difficulties which delay the economic awakening of the Transvaal and the Orange Free State and the return of prosperity to the Rand, and without confidence in the future of the money market, the London market in 1903 has shown little disposition to absorb new securities.

The capital demands of London in the fourth quarter, instead of exceeding that of the previous quarter as usual, were the smallest of any quarter for a dozen years. There was a sort of a strike of syndicates of subscription, neither the government nor any foreign state or colony or city venturing to request the smallest loan of London during those three months. Nevertheless, the subscriptions of that quarter included the 30 millions of the Transvaal loan. From 1882 to 1902, overcapitalized corporations representing 560 million pounds have gone through bankruptcy. The year 1903 had its Ferdinand Ward in the person of Mr. Whittaker Wright, who seemed to consider himself much abused, and committed suicide from chagrin without any apparent sense of the enormity of his offenses. These gentlemen belong in the same category with Eugène Bontoux, with his Union Générale in France in 1882, and with Langrand-Dumonceau, with his Catholic Bank in Belgium in 1873.

Notwithstanding the exhaustion of credit consequent on the Transvaal War, the dominant rôle of the London market is not jeopardized. New York is not going to inherit the mantle of London right off, and the persons who in 1898 and 1899 jumped at the conclusion that the monetary pivot had moved there now recognize their mistake. It was Paris that really played the part of understudy for London on account of the funds furnished to the latter market, and it was Paris that put into its reserves the gold that New York sent to London.

In the money market during the year the rate ruled above the average. The delay in the renewal of South African industry was one of the causes of the uneasiness which influenced, not only London, but also most of the principal money centers in 1903. The demands of credit increased on account of the exuberant development of American finance and the military expenses of England, with which the supply of gold failed to keep step. English capitalists as well as American have been compelled to sell gilt-edged securities to keep up their margins. In England the whole blame is laid on the South African war. The tutelage of the Bank of England over the

money market has been a wise one. The bank has kept the rate up often by itself going into the loan market as a borrower. On the other hand, the way in which the city banks went into the market as borrowers for window-dressing purposes, toward the end of 1902, was not looked upon by Mr. Herbert Tritton, president of the Bankers' Institute, as either flattering or reassuring to English finance. His idea was that the reserve of the English banking system is much too small— $4\frac{1}{3}$  per cent. of liabilities in 1896 and  $2\frac{2}{3}$  per cent. in 1902. He seems to be a partisan of the theory of scattered reserves, and proposes that the English banks should issue preferred stock to the extent of 30 per cent. additional capital for the purchase of gold. The vice-president of the same institute, Mr. Felix Schuster, however, thought the project impracticable, while the author of the chapter on England thinks that the additional gold could be held only by keeping the bank rate at a point that would be a perpetual proclamation of panic. Mr. Schuster explained very clearly, at the meeting of the Bankers' Institute, the causes that make England the counting-house of international commerce. He also said the last word on the perpetual controversy as to whether England's surplus of imports signify that she is spending her capital. He showed that from 1885 to 1902 the excess of imports has grown by 79 per cent. On the other hand, the interest on money invested abroad has increased 59 per cent. A blue book published in 1903 shows that the difference is made up by 90 million pounds coming from shipping freights. The infallible sign of an excess of importations is found in foreign exchange. When that remains constantly unfavorable without any special explanation, it is fair to infer that the excessive imports, or some of them, represent a debt incurred rather than the payment of a foreign loan. Unfavorable exchanges in this case would be accompanied by dear money, lower purchasing power, consumption, and wages—a state of affairs that could be cured only by an increase of exports.

The guaranteed Transvaal loan of 30 million pounds was the occasion of an insanity of speculation in London. One billion pounds was subscribed, but it afterward turned out that the "payment down" had been borrowed at the Bank of England, and that all the purchasers were going on credit. The only way the bank was able to meet this abuse was by refusing to take any subscriptions lower than £2,000.

The rate of interest was fairly steady during the year, varying

from 4 per cent. in January to 3 per cent. in June. In September the bank rate went up to 4, and the market rate above that through fear of a drain to the United States. The bank avoided a 5 per cent. rate itself by going into the market as a borrower, as above mentioned.

The year 1903 was one of the hardest in the history of the English stock market. It came near to a panic in September. The brokers complained that the public stayed away rigorously; that investment business, on account of high taxation and national and individual extravagance, had fallen very greatly; and that prices of securities kept falling as never before. It was not till the end of the year that some capitalists came into the market attracted by the low prices. The South African war was the cause of the whole trouble. It is true that the income tax was reduced from 15 to 11*d.*, but before the war people had grumbled at a rate of 8*d.* High taxation and slow return of activity in the Rand were the immediate causes of the dulness. After previous wars consols had gone up, but this time they kept falling. The unknown contributor of this chapter agrees with an idea put forward by Professor Thorstein Veblen in his recent notable work on *The Theory of Business Enterprise*, that the "modern bank with the credit facilities that it offers gives an opportunity which had not previously existed for ambitious speculators to make an appearance of abundance of capital by the aid of borrowed capital, which is a source of disappointment and disaster." The market crumbled away after the war. There was a continued "rich men's crisis," very much like that in New York. There was this difference between the London and the New York markets: London was weighed down by gilt-edged securities — English consols — while the burden in New York consisted of securities which in many cases were simply the product of disordered imagination. In September, on account of the rising price of gold, the fear of withdrawals for exportation, and anxiety about the solvency of some of the magnates at New York, the London bankers called their stock-exchange loans. The result was great sales of consols to meet the demand. This is when consols fell to 86 $\frac{7}{8}$ , the lowest point for thirty years. It must not be forgotten, however, that the interest on the consols in 1903 was reduced from 2 $\frac{3}{4}$  to 2 $\frac{1}{2}$  per cent. This extreme depression lasted, however, but a short time. In 1903 the best-sustained securities were the South American railroads.

That the Japanese bonds fell so much more than the Russian bonds after the outbreak of the Russo-Japanese war was purely due

to the circumstance that the former were marketed in London, where the pressure was extreme, while the latter had chosen Paris, a market that felt comparatively little effect from the war. The Argentine securities were helped enormously by the arbitration treaty between that country and Chile, and by the sale of the warships which were being built. This omen of peace, and the prosperity of Canada, were the two brightest symptoms of the economic history of 1903. English railroad securities were low during the year. The depression affected both freight and passenger traffic, and Mr. Chamberlain's propaganda had its effect also. Too much capital had been borrowed for improvements, as in the case of the American railroads.

While a royal commission was slowly investigating the problem of metropolitan underground passenger service in London, Mr. Yerkes was diligently digging his underground railways where he pleased. Mr. Yerkes, however, has not induced the public to buy his stock. American jingoism has fallen on the head of the Wall Street men as heavily as imperialism has fallen on Capel Court. An American public has left to the New York magnates the pleasure of holding the baby. The result has not been to transfer to America a monopoly of world-industry, although Mr. Chamberlain is trying hard to show the English people that the United States is the country where politics and industry have learned the lesson of supporting each other with scientific accuracy. Another remarkable phase of the present crisis is that the New York stock market has become the battlefield for great industrial magnates, who settle personal differences there and fight for their personal ambitions, quite regardless of social interests.

The Irish Land Act, the London Water Act, and the London Docks Bill (which did not pass) were notable events.

Passing over the abundant details furnished in this volume as to production, commerce, and the other items of industry which represent in tangible, materialistic form the records of prosperity or depression furnished by the money and stock markets, we may now turn our attention to those modifications in the laws and institutions affecting commerce, and to those inventions and tools—things possessing a material basis, which may seem to be the cause or effect of the “spiritual” items more directly connected with prosperity. In other words, we wish to know whether the permanent arrangements in the way of legislation, business organization, and mechanical contrivances have proved themselves defective, and whether better arrangements are in the way to replace them. This is an ambitious

program, hitherto fulfilled, and here to be not more than touched upon. The present volume, however, contains material for such a quest as abundant as has ever appeared, perhaps, within one binding.

Improvements in monetary institutions in the Orient have not been touched upon, nor is there room here to go into the workings of the American Monetary Commission. It is interesting to note how the Russians are paying those portions of their war expenses which fall due in Manchuria. It appears that in China the use of a bill of exchange drawn upon a fund in another place is looked upon as a neat, exceptional, and attractive device. Accordingly, the Russo-Chinese Bank purchased a sufficient quantity of silver to be able to accept bills on Shanghai and Tientsin. There being no uniform standard in China, the bill of exchange is peculiarly convenient; on the other hand, it would be impossible to circulate Russian silver money, whose intrinsic value is much below its nominal and current value at home. The bill of exchange, however, can be drawn upon bullion or upon dollars of any kind; but the chief contrivance is the circulation of small bills payable on demand at the Russo-Chinese Bank and at the eastern Chinese banks. Redemption is at the price of silver on the London market. For small change Russian copeks are used. When the Chinese found that the different kinds of bills were freely cashed, they obtained full currency and were not presented any more for redemption.

Returning to Europe, we find that in Austria the monetary reform begun in 1870 was completed in 1903. The last operation was in conformity with an imperial edict of 1899 and a law in Hungary ordering the withdrawal of the remaining 112 million florins of government notes. February 28, 1903, was to be the last day when the legal-tender clause should apply to them. The withdrawal and cancellation of the notes went on rapidly until (January 3, 1903) only 6 million crowns was still in circulation. Unfortunately, this operation could be carried out only by substituting for a part of the legal-tender notes a currency known as "salt-works warrants," which was secured by a pledge of the government salt monopoly. These bear interest, and their withdrawal in turn is now on the carpet.

Cuba has a complicated money system. The American gold dollar is an imaginary standard in which the railroads and hotels keep their accounts. Small purchases are made with Spanish silver, which shows the fluctuations of the exchange of Madrid or Barcelona on

Paris or London. All the important transactions in sugar, tobacco, etc., are now carried on in Spanish gold. This again is an imaginary standard, but, curiously enough, this imaginary standard itself is worth 6 per cent. less than the real Spanish peso. It is worth, therefore, 94 Spanish sous. The American dollar is worth 10 per cent. more than the Cuban peso, and 39 or 40 per cent. more than the silver peso.

The receipts of the French treasury show a surplus above the budget, and a still greater surplus above 1902. The proposition for an income tax was lost. It has become a sort of tradition in French budgetary legislation to vote down this proposition. The tradition is at least a quarter of a century old. The heated discussion of government finances, however, arose in the political campaign conducted against the postal savings banks. In 1903, 201 million francs of deposits were withdrawn in excess of the new deposits that were made. A preliminary campaign against the postal savings banks was made in 1895. Then the maximum deposit was limited to 1,500 francs, and this at the same time was to be the maximum to be deposited in any year. The object was to prevent large deposits that could be withdrawn on sight. Naturally, this regulation reduced exceedingly the utility of the institution to the public, and consequently hastened withdrawals. However, ways have been invented of avoiding the application of the law by making deposits in the name of others, and by withdrawing a deposit and then suddenly making a new one. The author of the chapter on France, Mr. Henri Schuhler, regards the opposition to the postal savings bank as a sinister one. It is noteworthy that Mr. Raffalovich, in his introduction, makes no mention of this important piece of politics. Probably Mr. Schuhler criticises the movement from a political point of view; he regards the campaign as one carried on by the enemies of the republic. The readers of the previous issues of the *Marché financier*, however, will remember that the editor has frequently pointed out the grave financial objections to the French postal-bank system. The economic objection has been that the postal savings bank has been used as a means of artificially sustaining the French government bonds; for they alone are the object of investment by the bank. The creation of an institution on purpose to purchase its own bonds is the creation of a factitious credit. In time of adversity, when the government might need large loans and the depositors might make a run for ready money, the total of French credit might collapse. The case has been

regarded in a way as parallel to the artificial sale of American government bonds to the American national banks. The fact that American and French bonds rule uniformly higher than those of other nations is not so much due to the fact that those countries have better credit, as to the fact that they have provided artificial purchasers for their credit. The crisis of 1903, therefore, was an opportune time for the discussion of a change in the French system in this respect. The proposal, however, seems to have gone the way of the income tax. It must be remembered that, in addition to the sales of bonds by this public savings bank, there were also large sales by the suppressed religious congregations. The proposed income tax also had an effect in lowering the prices of government bonds and in driving French capital abroad. The holders of registered bonds could not possibly escape an income tax.

The new French navigation law of 1902 has not yet been successful. The trouble was that the legislature did not vote enough money to carry out the law. French tonnage continues to decrease. The need of a progressive income tax is hardly apparent in a country where there is so little concentration of fortune as in France. Out of 363,612 inheritances in 1902, only 27 were concerned with fortunes above a million dollars. Those 27 inheritances covered 50 million dollars out of a total of nearly one billion dollars of inheritances.

The German tariff law has continued to give great dissatisfaction. It has alienated the commercial classes, although the agrarians and the great manufacturers appeared to be satisfied with it. It is as difficult to bring about reciprocity treaties under it as for the United States under the Dingley Law. A modification of the exchanges law, or law on options and futures, is the only part of the German attempts at financial reform in 1903 that was carried. The original parliamentary committee in 1895 had proposed to allow all persons who are carrying on a regular business on the exchange to be registered, and then to be exempted from having the defense put up by their clients that the transaction in question was one of gambling. Instead of that, the German Reichstag passed a law in 1896 causing all persons dealing on the exchange to be registered, but without any privileges as to the gambling defense, and then forbade outright dealing on a margin either in goods or in securities. This law has shaken the old traditions of business honesty, has made credit more difficult to obtain, and capital less mobile. In the same way, the continual increase of the stamp tax on business transactions has discouraged them without



giving proportional returns to the state. An account of the cases where the defense of gambling has been made is very painful reading. Persons who have dealt for years with a bank have been known suddenly to put up this defense. Sometimes the bankers combine to boycott such a person, but more often they do not. Often receivers and guardians are compelled to put up this defense in the interests of their bankrupts or minors, when personally they do not like to do so. The stamp tax returns on transactions on exchange has continually gone down, and that notwithstanding that the tax was raised in 1900. In Berlin the members of the exchange have decreased from 483 in 1893 to 339 in 1902; the securities dealt in, from 53 to 40 varieties. The clearings at Breslau have fallen from 67 millions to 9 millions. The business of the two "brokers' banks" at Berlin decreased from 3,909 millions in 1893 to 1,705 millions in 1903, or 56 per cent.—and so all along the line. It is true that the cash transactions have increased enormously, but these are not real cash transactions. The purchases are not made for permanent investment. The result has been to increase the fluctuations of the quotations, because the competition of bull and bear has been absent. When the market turns, there is no short demand left to sustain it. The future market is a parachute, the means of foresight; it puts people on their guard. Moreover, the high tax on transactions makes it impossible to speculate on slight fluctuations. The whole empire has suffered from the disorganization produced by this law. The markets are unable to carry securities, and this at the very moment when there is great need for a wide range of customers for home securities. Furthermore, the law has favored the concentration of banks. The Germans have sent their capital abroad for speculation and investment, and have lost foreign orders. In 1893 fourteen German bankers received foreign orders for 730 million marks, while in 1902 they received orders for only 213 millions. A great deal of the capital that has come to Wall Street has been German capital driven abroad by the law against time transactions in Germany. The German agriculturist has had to sell his grain cheaply, and then buy back the necessary supplies from abroad at a high price.

The hope, often ingenuous, of improving methods of doing business through state interference in order to increase prosperity, is perhaps the favorite theme of legislation; it is certainly the favorite device of those who expect to interest the public in a political way. Whatever may be the possibilities that lie in legislation, those that lie

in investigation are not to be despised. If projects of legislation will only give rise to thorough investigations, such as that which the government of Germany, in 1903, caused to be made into the conduct of the industrial combinations of that country, we may well dispense with the legislation, satisfied that the limits of the possible have been attained by the investigation. The imperial investigating committee included Professors Schmoller and Brentano, and Dr. Voelcker. The first combination investigated was the Rhine Westphalian Coal Syndicate. It was charged that it had kept up the price in hard times; to which it answered that it had kept them down in good times. It was found that the dealers in coal were more and more tending to become agents of the syndicates, paid by commission. The impression of this combination on the committee was decidedly favorable. The result of the investigation into the Upper Silesian Coal Syndicate and the Rhine Westphalian Coke Syndicate, was also favorable. In the case of the German syndicate of manufacturers of printing-paper, opinion was divided. After mentioning a number of other combinations, the writer says:

The general working of the coal and metal syndicates has been favorable to German industry, the situation of which has been rendered more firm, prices have been made more steady, and production has been adapted to consumption.

Workmen's wages have risen more quickly in the last ten years than during the previous period, and the prices which have been fixed by the combinations during the period of industrial activity up to 1900 were perceptibly lower than those on the open market or abroad. Public opinion will pronounce a verdict of acquittal on the German combinations.

The United States Steel Corporation has had a decided effect in spurring the German steel industry to emulate its example in combining. During the whole year the iron interests were on tiptoe to know whether the great German steel combine was to be brought about or not. A systematic elaboration of the plan began in the fall of 1902. This was not to be a mere *Cartel* regulating sales, but a real combination exercising a controlling direction over the whole organization, and hence not dissimilar to our great steel corporation. The problem was to find some means of combining the advantages of the American trust with the German *Cartel*. All the great German steel-works have been reconstructed in recent years. They were in full operation in the winter of 1902-3, and thus furnished a good basis for

assignment of quotas. This great task at last came to a head, in spite of all difficulties, and its chief officers declare that they do not look upon high prices as a panacea, but rather good organization of production.

One other great change in the quasi-permanent regulations under which the Germans live and move was projected in 1903, and although it failed, it is of sufficient importance to claim our notice. It will be remembered that in 1879 Bismarck carried through the protectionist law by means, among other things, of a provision that of the revenue raised under that law, as well as of the tobacco tax, the government should retain only 130 million marks for its own use, and should distribute the rest among the different states of the empire. This is known as the "Frankenstein clause." Of course, it would have been possible to have given up the "matricular" or lump-sum contributions which the German states are required severally to make to support the general government, in the same way as the different American states may be required to pay direct taxes over to the government, but only if the burden be distributed in an equable manner. In France such taxes are known as "taxes of repartition." These contributions had been growing so fast as to inconvenience the different states, hence the proposition of Bismarck contained an effective attractiveness, while, at the same time, the government did not surrender its constitutional rights. The result of the Frankenstein clause has been that the government has been paying two-thirds of the customs and tobacco taxes as a rebate to the states. Moreover, the whole of the tax on the exchanges is paid to the states. In 1902 the government took from the states some 24 million marks more than it paid them. That arrangement still left the government "in the hole" to the extent of 35 million marks, which it was obliged to borrow. The government did not dare to ask more from the states, whose power of taxation has been seriously reduced by the competition of the government itself in the field of indirect taxation. The government has to carry the army and navy, the state insurance against sickness and old age, bounties to distillers, etc. Herr Miquel in 1894-5 proposed to provide for these and other growing expenses by raising 100 million marks by taxes on tobacco, champagne, checks and bills of lading, and other commercial paper; but Herr Miquel got only the tax on stock and produce exchange transactions and on securities. The government already raises some 800 millions by the tariff and indirect taxes. The Frankenstein

clause makes an inflexible source of revenue of the tariff, and the necessities of the several states make an inflexible source of revenue of their contributions. The discussions of 1903 have not done much more than exhibit again the locking of horns between the empire and the states on the subject of taxation. Herr de Stengel, the present finance minister, revived the discussion 1894-5, but he opposed the introduction of the revenue tax in favor of the empire, instead of the indirect tax proposed by Herr Miquel. His proposition appears to be to abolish the Frankenstein clause, or rather to limit it to the tax on alcohol.

In Russia, a combination of iron manufactures also has been made, and it was before a meeting of this society that Mr. Witte made his speech on the blessings of protection. The Russians have also revised their law relating to the output of their sugar factories. The previous law had not prevented overproduction. In this connection it is proper to note that in France in consequence of the Brussels convention, the sugar tax has been reduced from 60 to 25 francs, and the tax on manufacturing from 4 to 2 francs. This was the consequence of the abolition of the sugar bounties. While the sugar-beet acreage has not increased, the stocks on hand are enormous, and a crisis in the sugar industry is threatened. In England, Mr. Chamberlain has sought to bring about a revolution, and convert the country from free trade to protection under the banner of imperialism. He has not succeeded, and the writer of the chapter on England thinks he will not. But his campaign has occupied the public eye during the year.

A bright spot in the financial history of 1903 was the improvement in Italian finances. For several years receipts have exceeded expenditures. The renewal of commercial relations with France has aided the renaissance of Italian credit. The Italians have bought back at low prices large blocks of their bonds which had gone from France to Germany when the tariff war between France and Italy broke out a dozen years ago. This operation of purchase abroad turned the exchanges against Italy, but the Italians have recouped themselves by paying interest at home instead of abroad. Italy has also profited greatly by the remission of funds from Italian emigrants abroad. Spain had a period of speculative furor which came to a head at Bilbao in June, 1902. The finance minister, Villaverde, made valiant efforts to put his country's finances on a sound basis by attacking the problem of the foreign exchanges, but he was not sustained long enough to produce permanent results.

Looking now for a moment at the most permanent environment of economic life, we find that in Russia the cotton area has continued to extend rapidly. The Russian government has taken measures to extend credit to small producers in Turkestan and elsewhere, but has hitherto been unable to protect them from the exactions of money-lenders. The Trans-Siberian railway has been completed at an expense of  $2\frac{1}{2}$  billions of francs. The road was built one-half faster than the Canadian Pacific, which had been the most rapidly built railroad in the world. In Germany, the introduction of high-speed electrical transportation, and of the steam turbine for the generation of electrical power, promises another great step in the reduction of costs. Our friends who confine their attention to socio-economic pathology will see nothing in these improvements but a cause for regret that they will be the occasion of a sinking of capital into a fixed form, of a disturbance in the labor market, and of a perpetuation of a condition of industrial depression. But there is another and a brighter side to the improvements question.

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